UNITED NATIONS

DP

Executive Board of the United Nations Development Programme and of the United Nations Population Fund

Distr.
GENERAL

DP/CP/UKR/1
31 January 1995

ORIGINAL: ENGLISH

Second regular session 1995
3-7 April 1995, New York
Item 3 of the provisional agenda
UNDP

UNDP COUNTRY PROGRAMMES AND RELATED MATTERS

FIRST COUNTRY PROGRAMME FOR UKRAINE

Programme period	Actual resources programmed	$
1994-1996	Net IPF	1 495 000
	Estimated cost-sharing	2 000 000
	Total	3 495 000

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I. DEVELOPMENT SITUATION, OBJECTIVES AND STRATEGIES

A. Current socio-economic situation

1. Heavy industry (aluminium, machine and ship-building) and agriculture are the most important features of the Ukrainian economy. Some 25 per cent of the labour force is at present employed in agriculture.

2. As part of the Soviet centralized system, the Ukrainian economy was closely linked to the economies of the other republics and heavily reliant on external resources and markets. At independence, the severance of the inter-republican links had a particularly disruptive effect on Ukrainian enterprises and on the national economy as a whole. The disintegration has led to a dramatic decrease in output in all sectors of both industrial and consumer goods production. In 1991, the net material product contracted by about 10 per cent, by an estimated 14 per cent in both 1992 and 1993, and by up to 20 per cent in 1994. The production sectors have therefore decreased by up to a half in four years, although the overall decline in the economy as a whole has been somewhat less, if services and the emerging informal sector are taken into account. However, the reversal of this trend is clearly not a matter of mere macroeconomic adjustment but will have to result from comprehensive restructuring on an unprecedented scale.

3. Coming in addition to substantial price increases of imported energy, inflation accelerated sharply from 2,500 per cent in 1992 to over 10,000 per cent in 1993. In 1994, inflation moderated but prices were increasing again rapidly at the end of the year. Inflation has led to the karbovanets becoming one of the weakest currencies among the countries of the former Soviet Union.

4. Energy is the Achilles' heel of the economy, since the country's industry and agriculture are heavy and inefficient users. Ukraine is self-sufficient in coal, but imports three quarters of its natural gas and 90 per cent of its oil. Oil comes almost exclusively from the Russian Federation, which has substantially raised its prices to close to world levels. Against this backdrop, nuclear power, which currently accounts for 25 per cent of national electricity generation, would appear to be one of the cheapest and most independent sources of energy available in Ukraine, which has its own uranium reserves. Ukraine counts 5 nuclear power plants on its territory and 13 working generators.

5. The above-mentioned figure includes Chernobyl, where, on 26 April 1986, the fourth reactor exploded, precipitating the worst nuclear disaster in peacetime. Some 50 million curies of radioactive matter were released into the atmosphere and nearly 40,000 square kilometres of Ukrainian territory were contaminated by radionuclides. The accident resulted in the loss of 4.7 million hectares of farmland, 3.1 million of it arable. Almost nine years later, Ukraine is still feeling the effect of the catastrophe. About 126,000 persons have been resettled from contaminated areas, and the nation has nearly 3 million people who, because they have been directly affected by the disaster, are eligible for free medicine, subsidized food and early retirement. The alleviation of the catastrophe's consequences has been the objective of national and international

efforts undertaken since 1986. One sixth of the Ukrainian national budget is devoted to mitigation-related activities.

6. Other major environmental concerns include air and water pollution. Ukraine is the sixth largest emitter of carbon dioxide (over 3 per cent of global output). Air pollution is particularly serious in and around the major industrial cities of the south and south-east, the major stationary sources being from metallurgical and electric power plants. Pollution of the Dnieper River is also of critical concern, particularly because some 70 per cent of the population depends on it for household use. The Black Sea and the Sea of Azov - which is connected to it - are also critically eutrophic and, for practical purposes, 90 per cent of their water volume is biologically dead.

7. Income per head in Ukraine has fallen below $2,000 by most official estimates. With the social protection system unable to sustain benefit levels (it accounted for 44 per cent of gross domestic product (GDP) in 1992), the International Labour Organization (ILO) has estimated that standards of living fell by no less than 80 per cent between the end of 1991 and the end of 1993. Registered unemployment has remained low, but hidden unemployment has been estimated at over 30 per cent of the working population. Based on World Bank statistics, Ukraine is already a lower middle-income country, and accurate contemporary data would bring it well below its current human development index ranking of 45/180.

8. Basic health infrastructure is good in quantitative terms, but health standards are deteriorating because of poor medical equipment and chronic shortages of basic medicines, including vaccines. Infant and adult mortality rates are rising and Ukraine is experiencing falling life expectancy, a phenomenon almost without precedent in modern human history. Respiratory diseases are the major adult affliction and maternal health is at risk from the very high rate of abortion (155 per 100 live births), which is the most common form of family planning.

9. As for health, education standards are in jeopardy from the penury of the public purse and of the state enterprises, many of which took on responsibility for social infrastructure. Apart from new infrastructure, the sector needs to address the changing needs of a new world of work, away from some of the narrower specializations prescribed by a command economy.

10. There are also concerns of a societal and moral nature. Serious economic hardship, the disappearance of traditional institutions and codes, and exposure to some of the less salubrious aspects of Western lifestyles - from which the country was almost completely isolated for three generations - have led to escalating levels of crime and the growth of alcoholism, drug abuse, prostitution and gambling. The country also faces an influx of returnees and displaced populations whose needs must urgently be addressed. The situation is particularly difficult in Crimea regarding the reintegration of Crimean Tatars and ethnic minorities that were deported in the 1940s and are now coming back. At present there are in Crimea 250,000 returnees and 250,000 more are expected to resettle in the forthcoming years. In addition, there is an estimated number of 35,000 displaced persons in Ukraine, most of them coming from war-afflicted areas of the former Soviet Union.

B. National development objectives and strategies

11. Ukraine is in a critical transition stage. Like the other countries of the former Soviet Union, it is attempting to defy history and achieve a threefold reform all at once: the attainment of nationhood and the construction of the institutional edifices of an independent State; the fostering of democracy; and the economic transformation from state to market determination. Because of the wholesale dislocation of the economy, its dependence on external energy and the absence of any readily exploitable natural resource, the attainment and maintenance of the first transition gives ever greater urgency to the third.

12. Already economic and human development levels are in danger of precipitous decline and the country's topmost priority at the beginning of 1995, therefore, is macroeconomic stabilization. During 1995, nothing will be as important as the need to stabilize the currency, liberalize prices and exchange controls, and introduce market institutions: in other words, the essential elements of a conservative reform package. Some modicum of stabilization is fundamental to continuing progress, although the exact nature and sequencing of the reform measures will be critical to determining the impact on living standards, and thus to the building of a broader consensus in favour of continuing reform. Since Ukraine has come to independence with no foreign currency reserves and limited external trade opportunities, it is obvious that it will have to depend on short- and medium-term external financing for its economic transition.

13. Following several attempts since 1991 to launch a reform programme, a critical juncture had been reached by the middle of 1994. The newly elected President determined at that time to take the bold measures necessary for stabilization and embarked on the formulation of a programme which would meet the conditions for a first credit under the Systemic Transformation Facility of the International Monetary Fund (IMF).

14. The programme was completed in October 1994 and comprises six essential elements: (a) financial and monetary stabilization, including price liberalization and the tax reform; (b) institutional reform, including rapid privatization and the forming of corporations to facilitate worker ownership; (c) economic restructuring, to facilitate the development of sectors in which Ukraine can realize a comparative advantage, as well as efficient public utilities and services; (d) agrarian reform, including land privatization and the stimulation of agricultural production; (e) external economic integration, including trade and investment promotion; and (f) social policies, which include reform of the wage structure and of pensions, promotion of individual shareholding and private home ownership, provision of health, education, science and culture, and administrative and fiscal decentralization.

15. This necessarily very comprehensive programme will be impossible to accomplish in full in the short term, especially those aspects which foreshadow fundamental institutional reform and restructuring. Also, there will be trade-offs. It will be difficult, and probably undesirable, to attempt to achieve full price liberalization immediately, since this would have deleterious consequences for vulnerable groups. Greater budgetary discipline will have to be weighed against the need to provide adequate social protection. However, all

elements of the programme will be of vital importance to the realization of the triple transition to which the country is now fully committed.

II. EXTERNAL COOPERATION

A. Role of external cooperation

16. Starting its independent existence without foreign exchange reserves and with limited economic assets, Ukraine is going to be critically dependent on official external financing, at least in the short to medium term. The first credits will be needed for the rescheduling of its $7 billion external debt (mainly for payments of imported energy) and for backing the new currency, expected to be introduced in 1995. This financing was being negotiated at the end of 1994 with IMF - expected to provide $700 million from the Systemic Transformation Facility - and with the World Bank, from which a $500 million programme loan is anticipated. Several bilateral sources are expected to be forthcoming in 1995, and these will include balance-of-payments support, part of it in the form of small grants. During 1995, Ukraine will need a total of some $4-5 billion to support its reforms.

17. Over the past three years, Ukraine has also been receiving technical and humanitarian grant assistance, the latter accounting for more than a quarter of the total. According to data of disbursements collected by the United Nations Development Programme (UNDP) for its Development Cooperation Analysis System (DCAS), these grants rose from $410 million in 1992 to $467.5 million in 1993, an increase of 14 per cent. Projections for 1994 indicate a further increase of at least 5 per cent, but this figure is likely to be exceeded as more new programmes begin disbursements. The principal sources of grant assistance are Germany, the United States of America, Canada, France, the Netherlands, the United Kingdom of Great Britain and Northern Ireland and the Commission of the European Union. In 1993, the share of multilateral assistance was about 1 per cent and consisted mainly of UNDP and United Nations system grants, including critical and timely medical assistance from the United Nations Children's Fund (UNICEF) and the World Health Organization (WHO) which the United Nations Office helped to mobilize and coordinate. For technical assistance, energy, human resource development, economic management, agriculture, transport and health were the most important beneficiary sectors.

B. Aid coordination arrangements

18. The organizational infrastructure for external resource management in Ukraine has developed in a somewhat ad hoc manner. Currently, there are four entities which share this responsibility: (a) the Agency for International Cooperation and Investment, headed by the Deputy Prime Minister with principal responsibility for international cooperation, has as its primary function the coordination of technical assistance, but its mandate also encompasses the monitoring of foreign investment; (b) the Department for Relations with International Financial Organizations in the secretariat of the Cabinet of Ministers is the central entity with designated responsibility for liaison with the international financial institutions, under the general supervision of the

same Deputy Prime Minister; (c) the Ministry of Economy, which also maintains active relations with selected donors and helps to establish priorities for financial and technical assistance; and (d) the Humanitarian Committee in the secretariat of the Cabinet of Ministers, under the responsibility of the Deputy Prime Minister for Humanitarian Affairs.

19. In Ukraine, there is a single United Nations Office - headed by a United Nations Resident Coordinator of the United Nations system for operational activities for development - which directly assists the coordination of all UNDP and United Nations system programmes and projects. WHO, UNICEF, the United Nations Conference on Trade and Development (UNCTAD), the International Trade Centre UNCTAD/GATT (ITC), the United Nations Industrial Development Organization (UNIDO), the International Atomic Energy Agency (IAEA), ILO, the United Nations International Drug Control Programme (UNDCP), the United Nations Environment Programme (UNEP), the United Nations Centre for Human Settlements (UNCHS), the Economic Commission for Europe (ECE) and the Department of Humanitarian Affairs and other departments of the United Nations Secretariat are among the many organizations and agencies which make active use of the United Nations Office in Ukraine, which services about 100 visiting missions per year. The United Nations Office also assists the Liaison Office of the United Nations High Commissioner for Refugees (UNHCR) on a day-to-day basis with technical and logistical support.

20. The United Nations Office, whose main counterpart organization is the Agency for International Cooperation and Investment, collects data on technical and humanitarian assistance from all donors for the annual development cooperation report, and the United Nations Resident Coordinator chairs donor meetings on subjects of common concern of a general (e.g. aid management) or sectoral nature (e.g. environment).

III. THE COUNTRY PROGRAMME

A. Proposals for UNDP cooperation

1. Preparatory process

21. To help in creating a framework for all technical cooperation activities in Ukraine, the United Nations Office assisted several organizations within and outside the Government in developing a national strategy of technical assistance for reform. The work began in February 1993 and culminated in a draft document which was presented in early December 1993 to a meeting chaired by the Vice Prime Minister for International Cooperation and attended by government policy makers, independent researchers and representatives of international organizations.

22. Based on this work, and to guide the operations of the integrated United Nations Office, a draft country strategy note (CSN) was prepared by the Agency for International Cooperation and Investment. This draft was reviewed in depth in May 1994 by an inter-agency meeting, jointly chaired by the head of the Agency and the United Nations Resident Coordinator, which included representatives of 12 agencies and organizations of the United Nations system.

The draft CSN was further revised following the meeting and has formed the basis for the present country programme.

2. Strategy for UNDP cooperation

23. Being lodged within an integrated office structure, in a country of growing programme significance, the UNDP programme is well placed to support a range of United Nations system activities and initiatives that assist the triple transition in those areas in which the United Nations system can demonstrate a clear comparative advantage. In an important sense, UNDP is being brought back, at the country level, to its traditional place at the centre of the system in a funding and implementation support function. This process is facilitated by having the United Nations Resident Coordinator invited, by several United Nations organizations and agencies, to become their de facto representative. This arrangement is also favoured by the Government because it enhances the coherence and cost-effectiveness of United Nations programmes.

24. Drawing on the framework of the national strategy of technical assistance for reform and the CSN, which is intended as a framework for all United Nations system technical cooperation, the country programme has three main objectives: systemic reform; human development, and energy and environmental management.

Systemic reform

25. The main thrust of this objective is to assist the country in the development and implementation of reform, and the establishment of the mechanisms of a market-driven economy, with special emphasis on capacity-building.

26. Support for administrative reform: to provide various forms of support (including the use of United Nations Volunteers) towards activities in the areas of public administration, urban management and privatization, through the Institute for Public Administration and Local Government, the International Centre for Privatization, Investment and Management and the International Centre for Policy Studies.

27. Strengthening of information and communications infrastructures for democratic reform: to provide Ukraine with computer-based communications with the world via the INTERNET. Appropriate technical infrastructure is being set up at various locations to enable people all over the country to access databases and information available throughout the world on an almost cost-free basis. The system will facilitate the establishment of a virtually infinite number of networks within the country (e.g., for customs management, disaster preparedness and response, scientific research and conferencing). Concurrently, information about Ukraine is being compiled for access by INTERNET users from abroad.

28. Technical assistance for reform (Umbrella project): to provide assistance to the Government in technical cooperation management and coordination, and fund advisory and other support services, including through United Nations Volunteers and experts in the Transfer of Knowledge through Expatriate Nationals (TOKTEN).

29. Aid management information system. Two development cooperation reports, based on UNDP's DCAS software system, were produced in 1993 and 1994 and provide the only comprehensive information source in Ukraine on technical and humanitarian assistance. The reports are widely used for local donor coordination meetings.

30. Capacity-building in external debt management: to examine the organizational needs and introduce the UNCTAD/World Bank software system for the monitoring and management of external debt.

31. International public procurement: to assist in establishing capacity in international public procurement through advisory services and training. It is being implemented in cooperation with ITC, the United Nations Office for Project Services (UNOPS), United Nations Commission on International Trade Law (UNCITRAL), the European Bank for Reconstruction and Development, the World Bank and various Ukrainian ministries and organizations.

32. Credit unions: to support members of the newly formed National Association of Savings and Credit Unions in Ukraine with training and advisory services.

33. Increasing mass media involvement in the democratic process: to provide support to the media in the various rounds of the parliamentary and Presidential elections held during 1994. It is also collaborating with the Organization for Security and Cooperation in Europe (OSCE) in the review of election laws, human rights and the role of the media.

Human development

34. The main thrust of this objective is to assist the country in developing specific policies to facilitate human development with special attention to the disadvantaged sections of the population, and to undertake operational activities to support these policies.

35. Human development initiative. A programme of active research by a team of 12 Ukrainians has been continuing since the launching in May 1993 of the Human Development Report 1993 at a national seminar opened by President Kuchma (then Prime Minister). A second national (two-day) seminar was held in June 1994 to review progress and expand the public debate on human development. Through a series of three subregional and regional meetings, this work helped to guide the commencement of similar work in other former republics of the Soviet Union. The first Ukrainian human development report will be published early in 1995, for submission by the Government to the World Summit for Social Development.

36. Building national capacity in women in development issues (WID): to provide direct assistance to the Government in the promulgation of strategies to make policy more gender-sensitive and to support women's activities through non-governmental organizations (NGOs) and business associations.

37. Labour and social policy review: to provide advisory services and undertake an intensive review of labour markets and social policy. The project includes the publication and dissemination of policy studies and the holding of seminars and conferences to widen discussion of the reform of labour markets.

The project also has important institutional implications in so far as it will encourage the emergence of new trade unions and encourage the observance in Ukraine of the global norms of ILO.

38. Restructuring of social protection. As a direct follow-up to the above activity, to assist the Government in its formulation of a new (non-enterprise-based) system of social protection during the critical phases of economic reform.

39. Crimea Integration and Development Programme. A many-faceted programme specifically aimed at facilitating the integration of the returning deportees to Crimea (mainly Crimean Tatars) and engendering socio-economic development in the peninsula. The programme will answer short-term humanitarian needs, foster education, housing, infrastructure, small business and other activities, and have important political and human rights implications in contributing to inter-ethnic harmony.

40. Citizens' advice bureaux: to help create local ombudsman-type service bureaux to assist people with their legal and other claims.

Energy and environmental management

41. This objective has as its main thrust to assist the country in creating the legal and institutional framework to improve environment protection and national safety and to develop new strategies of resource management.

42. Strengthening environmental monitoring infrastructures: to assist the Government to develop radiation-monitoring capabilities, particularly in the vicinity of nuclear and industrial installations, and in and around major river systems, using the latest available technology.

43. Dnipro River basin management: to strengthen the management capacity of the National Dnipro Commission in the implementation of projects to improve and maintain the quality of the country's principal river system, on which 35 million Ukrainians depend for their drinking water.

44. Institutional development/needs assessment: to undertake a comprehensive review of the functions and responsibilities of all Ukrainian institutions - governmental and non-governmental - involved in environmental problems in Ukraine. The review will stimulate environmental capacity-building.

45. Raising environmental awareness and participation through NGOs: to provide selective assistance to independent organizations engaged in promoting public awareness of environmental problems and developing remedial projects.

B. Assistance outside the main country programme areas

46. A portion of unprogrammed indicative planning figure (IPF) resources and any additional resources in the form of cost-sharing will be used to deal with the technical cooperation requirements of Ukraine, which go beyond the mentioned areas of concentration envisaged in the first country programme. They will be

focused on such issues as capacity-building in management development, particularly in the field of transformation and management, reform of agricultural enterprises, development of modern telecommunications management, facilitation of international traffic, including transit and customs procedures, military conversion, promotion of foreign investments, and so forth.

47. The activities will also address the needs of Ukraine in the area of electoral and legal reform, development of ombudsman-type institutions, restructuring of the civil service at regional and local levels, consumer protection, public education, mass media and public awareness, and NGO and other mechanisms that promote participatory approaches.

C. Implementation and management arrangements

48. The formulation and implementation of projects will be funded from a variety of sources. UNDP has provided almost US$ 1.5 million as an IPF for the cycle ending in 1996. In addition, there are other UNDP sources and funds available within individual United Nations organizations and agencies. In all instances, however, the UNDP system is being encouraged to seek out and mobilize additional funds from official multilateral and bilateral sources for cost-sharing or co-financing. By the end of 1994, it had mobilized nearly $1 million in third-party cost-sharing, a further similar amount in the pipeline, and good prospects of Management Service Agreements (MSA) contracts.

49. The United Nations Office will pursue national execution and quasi-national execution (with UNOPS collaboration) in many of its projects, subject to the counterpart capacity and the substantive capacity of the Office (which currently comprises nine Professional staff). During the course of the present cycle, the Office will develop with the Government the capacity to monitor and review individual projects.

50. The United Nations Office will also support the implementation of regional projects in which Ukraine is an active participant, including in particular the Global Environment Facility (GEF) projects for the Danube River basin and the Black Sea, and the sustainable development network.

51. During the last year of implementation, i.e. 1996, a comprehensive evaluation of the country programme will be conducted, in which the Government, UNDP and the United Nations system will examine the results of their cooperation. From this evaluation, appropriate lessons will be drawn in order to assist the Government in the programming of future technical cooperation.

Annex I

FINANCIAL SUMMARY

I. ESTIMATED RESOURCES (IPF + cost-sharing) TAKEN INTO ACCOUNT FOR PROGRAMMING

	(Thousands of dollars)
Fifth cycle IPF	1 495
Project cost-sharing (third-party)	2 000
Subtotal cost-sharing	2 000
TOTAL	3 495

II. ALLOCATION OF RESOURCES (IPF + cost-sharing) BY AREA OF CONCENTRATION

Area of concentration	Thousands of dollars			Percentage of total resources
	IPF	Cost-sharing	Total	
Systemic reform	650	150	800	22.9
Human development	550	1 700	2 250	64.4
Environmental management	250	150	400	11.4
Subtotal	1 450	2 000	3 450	98.7
Unprogrammed reserves	45	-	45	1.3
TOTAL	1 495	2 000	3 495	100

III. COMPLEMENTARY ASSISTANCE FROM OTHER SOURCES USED IN AREAS OF CONCENTRATION

	(Thousands of dollars)
A. UNDP-administered funds	
SPR	170
UNCDF	-
UNSO	-
UNIFEM	-
UNRFNRE	-
UNFSTD	-
TSS1	72
Subtotal	242
B. Other United Nations resources	
JCGP participating agencies	
UNFPA	-
UNICEF	2 000
WFP	-
IFAD	-
Other United Nations agencies (non-UNDP-financed): UNHCR	500
Global Environment Facility	1 000
Capacity 21	300
Subtotal	3 800
Total non-core and other United Nations resources	4 042

Annex II

PROGRAMME MATRIX

Area of concentration	Area of focus a/					
	Poverty eradication and grass-roots participation in development	Environment and natural resource management	Management development	TCDC	Transfer and adaptation of technology for development	WID
1. Systemic reform						
Support for administrative reform	*	*	*	*	*	
Information infrastructure			*	*	*	
Umbrella project			*		*	
Aid management			*		*	
External debt management			*	*	*	
Public procurement	*		*	*	*	*
Credit unions	*					
Mass media involvement						
2. Human development						
Human development initiative	*	*	*	*		*
Women in development	*		*	*		*
Labour/social policy	*		*			*
Social protection	*		*			*
Crimea integration and development	*	*	*	*		*
Citizens' advice bureaux	*		*			
3. Environmental management						
Environmental monitoring		*	*		*	
Dnipro River basin		*	*			
Institutional development		*	*			
Public awareness (NGOs)	*	*	*			

a/ Asterisks indicate major linkage only.